

CORRECTED* MINUTES

JOINT INTERIM LAND-USE STUDY GROUP

NOVEMBER 29, 2007
CAPITOL ANNEX, ROOM 117
514 WEST JEFFERSON
BOISE, IDAHO

Study Group members in attendance were Co-chairman Senator Russ Fulcher, Co-chairman Representative Cliff Bayer, Senator Stan Bastian, Senator Shirley McKague, Senator Lee Heinrich, Senator Jim Hammond, Representative Phil Hart, Representative Lynn Luker, Representative Les Bock and Representative Bill Killen. Representative Fred Wood was absent and excused. Ad hoc members of the Study Group in attendance were Dan Chadwick, Idaho Association of Counties; Ken Harward, Association of Idaho Cities; Anna Borchers-Canning, Meridian Planning & Zoning; and John Eaton, Idaho Association of Realtors. Mr. Joe Kunz sat in for ad hoc member Jeremy Pisca, Idaho Building Contractors Association, who was absent and excused. The Legislative Services Office staff members present were Paige Alan Parker and Charmi Arregui.

Also in attendance were Alan Dornfest, Idaho Tax Commission; Kathleen Sims, former state Senator; Senator Diana Thomas; Representative Bob Schaefer; Len Crosby, Chairman of the Post Falls Urban Renewal Agency; Randy Miller; Garret Nancolas, Caldwell Mayor/Association of Idaho Cities; Mark Rivers, BoDo developer; Vern Alleman; Max Vaughn, Minidoka County Assessor; Eric Heringer, Seattle-Northwest Securities; Steven England, City of Chubbuck; Tom Ryder, past President of the Downtown Boise Association and Vice President, J.R. Simplot Co.; Robert Chambers, City of Pocatello; Ryan Armbruster, Elam & Burke P.A.; and Teresa Molitor, Elam & Burke P.A./Lake City Development Corporation (LCDC).

Co-chair Russ Fulcher called the meeting to order at 12:37 p.m., expressing his hope and intent for this study group to formulate conceptual recommendations and encouraged open discussion between all participants and attendees. **Senator Hammond** hoped that the group would not be rushed into making decisions, adding that another meeting might be necessary. **Co-chair Fulcher** gave assurance that it could be done.

Senator Bastian moved that the minutes from October 25, 2007, be approved *with one correction (start time changed from 1:36 to 12:36)*, seconded by Senator Hammond. The motion passed unanimously.

***Correction:** Representative Luker asked that his comment in the *original* minutes on page 16, paragraph 5, 1st sentence be revised as it now appears in these *Corrected* Minutes on page 16, paragraph 5, 1st sentence.

Co-chair Bayer noted a change in the agenda with **Alan Dornfest**, Property Tax Policy Supervisor, Idaho State Tax Commission, being the first presenter. **Mr. Dornfest** gave a PowerPoint presentation entitled “Understanding Urban Renewal - Basic Concepts and Analysis of Property Tax Effects” which is available in the Legislative Services Office. **Mr. Dornfest** explained that the Tax Commission is an administrative agency, adding that neither the Commission nor any other state agency has specific ministerial, operational oversight authority over urban renewal districts, although there are areas in which oversight authority overlaps with urban renewal, such as mapping district boundaries and working with assessors on property value assignments. All such “intersections” deal exclusively with the revenue side and not with expenditures.

Mr. Dornfest said that urban renewal originally was authorized in 1965 to promote reclamation of deteriorated areas in cities; bonds could be issued to provide financing, not subject to voter approval. However, it did not include the tax increment financing provisions which are fundamental to the current version of urban renewal that were added legislatively in 1988. He emphasized that a “revenue allocation area,” the area in which revenues generated from increased property values are dedicated, may be a subset of the urban renewal district. He said that in 2007, twenty-three Idaho counties had urban renewal agencies, with 55 separate revenue allocation areas and with incremental taxable values, i.e., the additional value added since the creation of those areas, of \$2.79 billion.

Mr. Dornfest’s presentation addressed the effects of revenue allocation on taxing districts and on voter approved bond levies. When an override bond levy is approved by the voters, the levy rate is applied to the base value of property within an urban renewal district. The levy rate applied to any incremental increase in property value within the urban renewal district goes to the urban renewal agency. With the exceptions of new construction or a natural appreciation of property values that would have occurred regardless of the creation of an urban renewal district, **Mr. Dornfest** said that incremental financing is revenue neutral to taxpayers. Such new construction and inflation of property values do not change the base. **Senator Hammond** reminded the committee that legislation is being worked on with cities and counties to remedy that particular problem, adding that something will be brought forward this 2008 legislative session.

Senator Bastian clarified that if the property becomes exempt, exempt property becomes taxable, or if any other change in the tax status of the property occurs, the base would change, but that the appraised value of the property doesn’t change the base. **Mr. Dornfest** said that was essentially correct, adding that real property improvements made during the year in which the urban renewal district is created adds to the increment, but not to the base.

Mr. Dornfest summarized that urban renewal agencies use the process called tax increment financing to generate revenue for urban renewal projects; taxpayers within and outside the urban renewal district pay the property tax. Property taxes generated on the incremental increase in property values within the urban renewal district are collected by the county and are allocated to the urban renewal district. Generally speaking, taxing district budgets aren't reduced, but some of the increases are constrained. The taxing district's levy rate is set on the base value without the increment. Due to HB 79, future budget capacity increases are constrained during the life of revenue allocation because the value of new construction within the urban renewal district is not included in calculating budget capacity. However, after the urban renewal district is dissolved, the taxing district gets the benefit of the value of the increased property values because the entire incremental can be counted in the taxing district's base. While taxpayers may be required to pay higher levy rates or approved override levies to meet the taxing district budget, the overall tax effects depend on the success of the urban renewal district.

Representative Bock stated that in the last session both he and **Senator Hammond** had questions about the economic benefits of urban renewal districts. He asked if there were any data to prove improvement in economic conditions as a result of the creation of an urban renewal district. **Mr. Dornfest** responded that the Tax Commission does not collect any such information, adding that the Commission monitors what is happening in terms of growth in dollar amounts.

Senator Heinrich inquired about levy limits and the 3% constraint on budget growth, asking if levy limits are a hindrance to those counties with low property values. **Mr. Dornfest** explained that levy limits are limits on the rate and are not dollar limits; levy limits rarely come into play and do so in one to three percent of all taxing funds or districts statewide, but when they do come into play, they serve as a constraint on those taxing districts. Regardless of urban renewal, it is likely to be a bigger constraint in an area with little economic growth, such as Caribou County. Urban renewal could have some of that same effect, but regardless of urban renewal, areas that have little appreciation in property values or new construction are apt to have higher overall levy rates and are more likely to be boxed in.

Representative Hart asked if the Tax Commission had any data on the total assessed value of all property in the state and how much falls within the urban renewal increment. **Mr. Dornfest** answered that there was roughly \$2.7 billion in urban renewal increment value statewide and roughly \$120 billion in total taxable value of all property statewide - so roughly 2% of all property. There was a big increase from 2006 to 2007 of almost \$1 billion. **Representative Hart** asked if it would be safe to say that those people who live outside the urban renewal district are paying 2% higher property taxes to make up for the incremental being redirected to the urban renewal districts. **Mr. Dornfest** answered that would only be true if the \$2.7 billion growth had occurred regardless of the existence of urban renewal. As far as the taxing districts are concerned, they get their money regardless. He added that if urban renewal went away, except for some capacity issues having to do with the new construction allowance provided by HB 79 last year, it's not a loss, per se, to the taxing districts.

Mr. Max Vaughn, Assessor, Minidoka County, was the next speaker. He noted that urban renewal was a federal program that came about after World War II to clean up inner-city slums in blighted, larger cities. Over time the federal money dwindled. Tax increment financing then became the mechanism whereby a portion of property tax dollars could be allocated to urban

renewal. Idaho's urban renewal law was enacted in 1965 when the population was about 100,000, limited basically to the city of Boise. Since then, the entire state has grown.

Mr. Vaughn said that urban renewal is a very effective economic tool to bring in business; however, now the discussion is whether urban renewal is being effectively used and in accordance with the law. He recognized urban renewal as an economic tool that has a funding mechanism for cities; however, he stated that it does increase the levy rate for taxing districts. He said that the taxpayers are paying a portion of that economic development. He stated that the base value is not the problem because it doesn't increase as much, but when a disproportionate amount goes to the urban renewal district, a problem is created for the taxpayers. He reiterated that there is almost a "rebellion" from Idaho taxpayers, blamed on increased assessed values. The budgets are restrained by 3%, so when there is another entity that doesn't levy property tax feeding off the increase in property values, that could be a concern. **Mr Vaughn** opined that there needs to be a balance. There is no accountability to property owners with urban renewal; taxpayers don't have a say or a vote. Also: "Is urban renewal being used for urban renewal or is it being used for economic development?"

Mr. Vaughn thinks there is a crisscross between chapters 20 and 29, title 50, Idaho Code. Last year, Chapter 20 was being dealt with but, in his opinion, Chapter 29 *should* have been dealt with. **Mr. Vaughn** handed out a copy of section 50-2902, Idaho Code, a copy of which is available in the Legislative Services Office. He pointed out that the Legislature intended for these revenue allocation areas to be for a limited period of time; unfortunately, when created in 1988, there was no set time limit. He sees a problem where the urban renewal districts are allowed to modify their plans, areas and boundaries, and where they can "shoestring" their boundaries down a highway or right-of-way to pick up another area to possibly develop. In doing so, the base stays the same while the urban renewal districts pick up more increment.

Mr Vaughn believes there should be multiple, specific revenue allocation areas, according to section 50-2905, Idaho Code, rather than letting the expansion of existing revenue allocation areas. To him, the guidelines are clear, including a termination date for the plan. Also, when entities can reach back in December and pick up that year's base value created in that year, almost instant financing for the urban renewal district's next year's projects is permitted. **Mr. Vaughn** summarized that the Legislature needs to provide that urban renewal is for economic development and not for urban renewal, define what those purposes are and to better define "blight," for which he says there is *no* statutory definition.

Senator Bastian asked whether the expansion of an existing urban renewal district would re start the permitted life of the district. **Mr. Vaughn** said he thought that was correct; in his opinion,

adding that when the plan is modified, he thought the 24-year clock resets.

Representative Hart referred to section 50-2902, Idaho Code, which addresses the purpose of economic development areas and the need for such areas and for “competitively disadvantaged border community areas.” He asked if there was any definition for that term or what the thought process was of the Legislature when it used that term. **Mr. Vaughn** stated that the “disadvantaged border community areas” would be an area such as Fruitland or Payette that border another state. **Representative Hart** asked whether an economic finding of competitive disadvantage have to be made when an agency uses that definition for criteria to form an urban renewal district. **Mr. Vaughn** answered that the city must make a determination on their findings that it is disadvantaged and list those.

Representative Killen asked for **Mr. Vaughn’s** overall sense of pluses and minuses of urban renewal districts. **Mr. Vaughn** answered that, in his opinion, there are some agencies that have pushed the envelope. He gave an example of a shoestring boundary down a corridor to pick up land to facilitate a Fortune 500 business that was coming in. **Mr. Vaughn** wondered if land so acquired fit the definition of “blight” just because the building did not have the phone lines and infrastructure to meet the business’s needs. The new construction goes into the increment. He thinks the business would have come in anyway. Under the guise of public safety, morals and health, the urban renewal district may purchase fire trucks and fire stations without voter approval. What urban renewal districts can spend that money on needs to be defined in statute. Public money, specifically property tax dollars, should not be spent without public accountability.

Representative Luker asked about whether these shoestring extensions are happening under Chapter 20 or 29 or both, and how increment funds are being used in those situations. **Mr. Vaughn** answered “both,” explaining that the incremental funds are being used (1) to expand the urban renewal agency itself, and (2) to expand revenue allocation areas. In the instance of shoestring extensions, he said that the incentive to the business was offered before the revenue allocation area was expanded. The urban renewal district then shoestringed out to pick up that business to generate the revenues necessary to fulfill the promises it made.

Representative Bock asked about the width of the shoestring. **Mr. Vaughn** answered that usually a public right-of-way road is used, sometimes going several miles. **Representative Hart** asked if there was any upper limit on how much revenue an urban renewal district can take. **Mr. Vaughn** responded that there is no limit on the increment, adding that Idaho is relatively new to this, and is now running into problems that other states experienced twenty years ago.

Mr. Ken Harward asked a legal expert in the audience, **Mr. Ryan Armbruster**, if the urban renewal district’s term is reset when an area is modified. **Mr. Armbruster** responded that, in his opinion, if a plan was modified to bring in a new area, the original term of the plan would remain the same unless it was at the 24-year maximum. If a plan is in effect and another property is added and the first plan had 24 years, then that is all you have. Also, the base value for the new

area is at the time of expansion; it does not retroactively go back to when the first plan was approved. On projects he has worked on, it has been a tough call between starting a new project area with a new time clock or appending it to an existing project area, adding that most agencies and cities try to assess that issue in some detail before making that decision.

Mr. Chadwick asked if that also included agencies that are grandfathered in, and **Mr. Armbruster** answered that, in his opinion, based on the changes that were made in 2000, the only plans grandfathered in were plans in effect at the time the legislation was passed. For example, a 30-year plan that was in effect in 2000, would remain a 30-year plan, but all subsequent plans would be subject to the 24-year limit.

Representative Bayer invited audience participation.

Former Senator Kathleen Sims stated that she has been a business person in northern Idaho for 40 years. She handed out two publications, “LCDC Existing Properties” and “Proposed Legislation to Correct Urban Renewal District Problems and Concerns,” both of which are available in the Legislative Services Office. **Ms. Sims** stated that she represented a large group in Coeur d’Alene that has become concerned about the Lake City Development Corporation (LCDC) urban renewal agency in Coeur d’Alene. She said that her group has been researching this for over a year, as well as trying to educate the public. Her business is located within the LCDC.

Ms. Sims provided an example of a private home valued at \$150,000 and a business valued at \$200,000. In 1997, all the property taxes on both went to the General Fund to pay for schools, streets, police, fire, etc. She then stated that in 2007, the private home may be valued at \$250,000 and that business may be valued at \$500,000 and that 100% of all the increase since 1997 goes into the LCDC’s “bucket ‘o’ cash.” Any additional increase over the 24-year life span of LCDC will also go into its bucket. She stated that she personally will pay \$15,000 in taxes this year on her business, with \$9,000 of that amount going to LCDC. **Ms. Sims** stated that her business started development of a new multi-million dollar building and, when it is complete, 100% of the taxes on that building will go to LCDC until the year 2021. She still needs the protection of police, fire, street access, and upkeep but the City of Coeur d’Alene will not receive any of the tax based on the increase in value and new construction. When she goes to the polls and votes for a school levy, she wants the taxes generated by the levy to go to the school, not to LCDC.

Ms. Sims is not totally against urban renewal districts. The Post Falls urban renewal agency started with a plan, followed that plan, paid the money and ended the district. She said that is not the case in many urban renewal districts and not the case with LCDC; many do not have a plan, or may have a vague plan, but have no intention of following it. She stated that the LCDC is giving \$400,000 to a condo on Sherman Street in Coeur d’Alene to make it more attractive by adding brick, and now the developer is trying to sell it. LCDC refers to this as a wonderful “partnership” and that is how it’s sold to citizens. She said that the so-called “partnership” is as

follows: “If a developer puts \$400,000 worth of brick on his building to make it look nice in the city, then it’s on the tax rolls and the urban renewal district will pay that developer back the \$400,000 plus 10% interest, and that is what some are calling a ‘partnership’ and this goes on project after project.”

Ms. Sims said that in Coeur d’Alene, \$4 million worth of prime property has been removed from the tax rolls, hoping that some developer will want it. There are no controls over urban renewal districts, and certainly none over the LCDC in Coeur d’Alene. All the appraisals they use are at its discretion; there are no appraisal rules or standards whatsoever on anything bought or sold. She believes this is a huge problem since there are no limits to how much money urban renewal districts can take. She estimated that in Coeur d’Alene, by the time its 24 years are up, it will have taken in and spent \$200 million with no accountability. She referred to the “shoestring” policy where LCDC goes down a street to take a school. This makes LCDC look really good with the taxpayers by claiming to save a school. She said she didn’t believe that the Legislature had approved the funding of schools through urban renewal districts. She said that the LCDC board chairman had remained the same for 15 years, and many of the LCDC board members, who are appointed, do not even live in the city of Coeur d’Alene. Some waited 10 years to file a conflict of interest statement. She recommended that this needs to be looked into. She believes that giving taxpayer money to private developers for profitmaking projects is not what the urban renewal districts were designed for. She said that if a new business prospect was going to bring 200 jobs to a town, *that* is what urban renewal districts are for. She said that she bought her own sidewalk, fire hydrant and sewer for her own building, but other new businesses in the LCDC area are given these things.

Senator Fulcher asked **Ms. Sims** what legislative proposals she supported to correct these problems. **Ms. Sims** replied that if nobody on the urban renewal district board is elected, there should be term limits or revolving terms. She also expressed her support of **Senator Hammond’s** proposal to remove the school levies from the urban renewal districts’ incremental financing. **Senator Hammond** stated that his proposed legislation would cover more than just school levies; he reiterated that his proposal would exempt any bond or any special levy. **Senator Fulcher** asked if any part of her proposal included defining the term “blight.” **Ms. Sims** answered “no, but that is an excellent idea since there are many terms not defined.” She said her group recommends changing the length of urban renewal districts, adding that unless the urban renewal district can prove that it will take 24 years to gather the money for the project *specifically* outlined, 24 years is too long.

Representative Bock said that it was his understanding that the LCDC’s board was appointed by the City Council and the Mayor, and wondered if these city officials could also remove the board. **Ms. Sims** said that was correct. **Representative Bock** said that it might appear that there has been abuse of power and he asked if any of the problems identified in her testimony had been shared with the City Council or Mayor. She said that this information had been taken to the City Council and the Mayor. She noted that the recent city election witnessed only a 17% voter turnout. Although her group is trying to educate the public, legislation is needed.

Senator Bastian asked whether the urban renewal district should be forced to dissolve when an urban renewal agency identifies a project that it believes will take 24 years to fund but finds that property values go up so that the agency is able to pay off the project much more quickly. **Ms. Sims** answered that she believes that when the project is paid for, the project should drop out of the urban renewal district funding mechanism. If an urban renewal district gives someone money to put brick on a building, as soon as that is paid back, that building should go back on the regular tax rolls.

Representative Hart asked if there were any areas in Kootenai County, particularly within LCDC's area, that **Ms. Sims** would consider blighted or deteriorating. **Ms. Sims** responded "Absolutely not!" **Representative Hart** asked how the 13 urban renewal districts in Kootenai County make their economically disadvantaged area or deteriorated determinations. **Ms. Sims** responded that since there is no definition, the determination is made, such as a building without wheelchair access or needing more phones. **Representative Hart** asked about the justification for adding a school to LCDC; **Ms. Sims** clarified that the school was not accessible to disabled persons, and she believed that the LCDC was going to close that school and shoestring another school that has a beautiful park overlooking the river for development. **Ms. Sims** referred to urban renewal in Coeur d'Alene as "on steroids."

Representative Killen stated that it appears clear that the urban renewal districts are project oriented within given areas, and that there has been concern expressed that projects, when completed, are continuing on. He asked **Mr. Armbruster** if there was a provision to amend the plan to add, as well as to delete, an element of the plan once complete. **Mr. Armbruster** answered yes, adding that there could be complications depending upon whether the entire project area has been pledged to repay some sort of debt. He said that usually the improvement plan is not site-specific on a particular piece of property so that the incremental taxes that pay for improvements to one property might also pay for other public improvements. He referred to BoDo where incremental financing is not just supporting the parking garage, adding that there are ways to delete or terminate a property from an overall project area. **Representative Killen** asked if one would almost have to anticipate doing that going in when the plan was created, and **Mr. Armbruster** affirmed that was correct.

Senator Hammond referred to **Representative Killen's** remark and commented that this brings up the issue of the size of the district and illustrates the advantage of many smaller districts. He opined that if you focus on many smaller districts, projects could be completed, closed out and the property returned to the tax rolls. In very large districts, he said, funds are spread over so many projects that it becomes more difficult to close the district out, adding that closing out one phase could lengthen the term of the rest of the district because it takes that much longer to generate the funds to repay the obligation. There is some advantage to the larger districts in that money can be generated to pay for all the projects. **Senator Hammond** stated that everyone would like to see accountability.

Mark Rivers spoke next; he is a real estate developer for BoDo in downtown Boise that

acquired the 8th Street Marketplace in 2002 from the J. R. Simplot family. At the time of acquisition, **Mr. Rivers** stated that the area had been in decay, referring to “blight” as the 14 underground petroleum fuel tanks. He entered into a development agreement with the urban renewal agency in Boise whereby he invested \$60 million of private capital into the rehabilitation and revitalization of this area, turning it into BoDo; the urban renewal agency contributed \$8.5 million in tax increment finance support, emphasizing that none of those dollars came to him or the developer but were spent exclusively on long-term public improvements: reopening closed streets and building a new parking garage owned and operated by the public which serves a public benefit. **Mr. Rivers** stated that he was very appreciative of that public investment.

Mr. Rivers emphasized that, unequivocally, the BoDo project would **not** have happened without the creation of an urban renewal district. BoDo has attracted six national retailers, and these businesses contribute to the livability, commerce, and economic vitality of downtown Boise. **Mr. Rivers** stated that these national retailers may not have come without a *public* parking solution for their customers, a critical component to the success of the project. **Mr. Rivers** commented on other examples of economic benefits. He expects that incremental 6% sales tax generated from BoDo will be \$1.5 million to \$1.8 million annually over 25-30 years. He believes over 100 full-time employees have been employed by BoDo businesses, each paying payroll taxes; the first hotel since 9/11 was built in BoDo, adding \$2-4 million in hotel tax.

Mr. Rivers said that the development agreement with the urban renewal district required accountability: more than 10 public hearings were held and that signing up for a partnership with a public agency meant disclosure that is not required in the private sector. Boise’s urban renewal agency is appointed by the Mayor and has on its board two City Council members who regularly stand for election. With respect to the tax increment financing, in order for the agency to go out to the bond market to raise \$8.5 million, he personally had to guarantee the repayment. He stated that some had testified about developers getting a break, adding that he personally felt like he had an “albatross agency” wrapped around his neck for the next 20 years. He appealed to the legislators to keep the heart and soul of Idaho’s downtown close to their hearts, so that it does not become blighted. He believes that what downtowns provide to families and economies is a privilege, not a right. Urban renewal, to **Mr. Rivers**, is economic development, and economic development is urban renewal, adding that he is not an expert on laws and statutes, but as decisions are made, everyone needs to make good decisions regarding all of Idaho’s downtowns.

Mr. Len Crosby, Chairman of the Post Falls Urban Renewal Agency, spoke next. **Mr. Crosby** said that his Post Falls agency was created in 1991. According to **Mr. Crosby**, Post Falls has only used urban renewal for economic development, with one exception, which was for blight. **Mr. Crosby**, who was previously a banker, has been the Chairman for two years. There are seven other appointed urban renewal agency commissioners. The Post Falls City Council has created seven urban renewal districts; it is *only* the City Council that can create an urban renewal district. The Post Falls agency can recommend, bring economic studies, show impact, but only those elected officials at the local, community level can create or shut down an urban renewal

district. One Post Falls urban development district was closed in 2001, seven years prior to its maturity date, after providing the community with 450 jobs, adding \$55 million in value enhancements to the city and resulting in a one-time payment to the city of \$1 million that was used to build a new police station. Post Falls creates smaller urban renewal districts, sets up a plan, tells the City Council how money will be spent, and once the public infrastructure for which the district was created has been paid, then the urban renewal district is shut down. An annual meeting is held to give an accounting to the City Council on all the Post Falls urban renewal districts.

Mr Crosby said that five of the six urban renewal districts were created under the “disadvantaged border community” provision, pointing out that they are on the border of Idaho and compete aggressively with the city of Spokane, Spokane Valley and Liberty Lake for new employers. The new employers who have been attracted by the urban renewal districts have provided a total of 3,375 new jobs, mostly in manufacturing and distribution, and support families. A Danish medical research firm is currently building a \$40 million facility in Post Falls, relocating its operations from Spokane; Cisco provides an annual average wage of \$54,000; 84 Lumber and Integrated Ideas Technology have all located there. Each has said that it would *not* have come into Idaho because of its tax disadvantages, had it not been for a reduction in land values by virtue of urban renewal districts.

Mr. Crosby stated that with regard to accountability to modify a district or extend one, the City Council must be shown the reason to do that and it makes that decision. He asked the study group and other legislators to consider: (1) All the urban renewal agencies in the state are subject to the *same* statutes and thus are in the same boat. If the Legislature takes one agency that is not being held accountable by its City Council “to the woodshed,” the legislative change will affect every agency; and (2) Every time a new employer is brought in from out-of-state, not only is there local economic development, but a ton of dollars is sent to Boise through sales taxes, income taxes and other taxes that the new development creates.

Senator Fulcher invited **Mr. Crosby** to comment on the recommendations brought before this study group as possible legislative improvements to the current system. **Mr. Crosby** said that he is in the vanguard of those who support **Senator Hammond’s** bill to limit any application of taxes for urban renewal from voter approved bonds or levies. He has looked very carefully and analytically at the opportunity to reduce the link of urban renewal districts to 24 years or to 30 years in case of bonds. The last two urban renewal districts created in Post Falls were specific to an employer and should be paid off within 10 years. In his opinion, trying to limit the life of an urban renewal district to *below* 15 years would make it extraordinarily difficult. Developers are told to invest in required, basic improvements such as roads, sewer and water to exacting city standards and dedicate that to a city and then, and only then, if development follows those improvements, will there be the tax increment to pay the developer back. There might be two to three years between the time that the developer goes to the City Council and when those facilities are actually built. Three to four years down the road is the first time the increment is realized. **Mr. Crosby** said that while he would support a reduction in the term, he encouraged the study

group to recommend that there be no reduction below 15 years or all agencies would be constrained. As to the responsiveness of the agency, he believes that this goes back to the elected officials at the city level. The Legislature gave cities the opportunity to create urban renewal districts; unless the Legislature wants to oversee how the cities handle their responsibilities, the cities need to be told that it is *their* responsibility. If that city chooses not to be responsible, that council should be held accountable by its voters.

Representative Luker asked **Mr. Crosby** about constraints of using tax increment financing in a deteriorated or a border area situation that is economically disadvantaged, and about the process by which the City Council determines whether the area is economically disadvantaged. **Mr. Crosby** responded that the limit for a border area is 25 miles in from the border, adding that the Post Falls Renewal Agency has specifically informed the City Council what is to be created and the expected impact. **Representative Luker** asked if that process is followed with every one of the Post Falls urban renewal districts. The response was “yes.”

Senator Bastian asked **Mr. Crosby** if Post Falls had used shoestring boundaries to make a project viable and whether such shoestring boundaries should be used. **Mr. Crosby** answered that Post Falls had never used the shoestring approach. The Post Falls Renewal Agency has broken an urban renewal district into 3 subdistricts, with the anticipation of closing out one subdistrict quickly to return that tax increment back to the community. He would not support the shoestring approach, particularly in the case of a development Post Falls knew was going to happen anyway. The Post Falls Renewal Agency tries to provide a greater return to the community for the dollars spent.

Senator Heinrich asked how **Mr. Crosby** would feel about standing for election for his position on the Post Falls Renewal Agency, and **Mr. Crosby** answered: “There are limits to self-abuse.”

Senator Hammond emphasized that a successful district, such as the one chaired by **Mr. Crosby**, takes the time to talk to all the other taxing agencies such as the county, fire districts, highway districts and school districts so that everyone is on board from the start. He compared that to concerns expressed by **Mr. Vaughn** and the debate that took place last year on the floor with regard to HB 79, the point being that some of the problem is lack of communication. **Senator Hammond** said that he didn’t know how that might be remedied legislatively, but the question needs to be asked: “Would this occur if not for the urban renewal district?” If the development would occur anyway, an urban renewal district has no business being there. However, there have been urban renewal districts that have facilitated the creation of jobs and the enhancement of property values that have helped the county, fire districts, and everyone that shares those enhanced revenues. Best business judgment must be used.

Mr. Crosby said that when they go to those various districts, they say: “This is what we are planning to do; what do you see as your need?” Using this approach, the Post Falls Renewal Agency has gotten a developer to donate five acres for a fire station that has now been built, ten acres for a school that has been built, and a park, but pointed out that this is not in the form of

money returned to that developer. In the process, before going to the City Council, the Post Falls Renewal Agency negotiates individually with each taxing entity to make sure the growth to which the urban renewal district will create doesn't create a problem for them; if it does, a solution is created in the context of agreeing to provide the benefit of urban renewal to the developer.

Representative Luker said he was interested in learning more about the acquisition and resale of property, asking **Mr. Crosby** if property is acquired by the redevelopment agency for resale to private individuals. **Mr. Crosby** answered that they had not done that to date, adding that the possibility is being considered in their downtown district where roadwork had been completed and a new City Hall is being built. They are considering buying several lots and partnering with a landowner or developer to do a demonstration program to show the development community what they want downtown to look like. But since 1991 the Post Falls Renewal Agency has not acquired any property.

Representative Luker asked if that downtown area was in an urban renewal district, as opposed to the economic development area, and if the Post Falls Renewal Agency does engage in purchase/resale, what type of safeguards are being put into place to guarantee an arm's length transaction. **Mr. Crosby** said that their downtown district is an urban renewal district created at the request of the city; there is not a developer component. It is one of two districts requested by the city to address transportation and blight issues. Regarding safeguards, **Mr. Crosby** said that he was not sure of statute but, as a banker, he wanted an appraisal to make sure the property was bought at or below the appraised value, or partnered and brought to the table as part of the deal. He would also want a new appraisal showing its new value, less demolition, emphasizing that he absolutely would want on file for the public, showing what was paid, why that price was paid, what the property was sold for and why the agency got that price.

Representative Hart asked **Mr. Crosby** what were the life spans of the Post Falls urban renewal districts and whether any would be closed down early. **Mr. Crosby** answered that one with an initial life span of 15 years was closed seven years early. The districts created several years ago have life spans out to 20 years; his agency has asked the City Council for 10-year life spans for two recent districts. An annual assessment is done on each urban renewal district to determine, based on the tax increment coming in, if repayment is going faster than expected. The Post Falls Renewal Agency then tells the City Council how many years ahead of time it thinks the urban renewal district can be closed.

Representative Bayer said that another meeting will be scheduled for Thursday, December 20, 2007, at 12:30 p.m., to provide a thorough opportunity to discuss any proposals. The co-chairs asked that any study group members who provide any proposed language or recommendations that the member would like the study group to consider through the Legislative Services Office, no later than December 13, 2007, so that the material may be disseminated to study group members prior to that meeting.

Representative Robert Schaefer, a member of the Nampa Planning and Zoning Committee, addressed the study group. **Representative Schaefer** stated that urban renewal means different things to various people. He opined that the enabling legislation for urban renewal encourages confusion due to the loose construction of the language. He thinks that the taxpayers who pay for the various urban renewal “schemes” are purposely excluded from involvement, except for providing money. **Representative Schaefer** believes that legislation, subsequent to the adoption of urban renewal in Idaho, has downgraded it, making it “taxpayer unfriendly.” He asked that taxpayers be given a voice.

Representative Schaefer is also concerned about plan modification, adding that he believes that Post Falls is an example of how urban renewal is working successfully. He believes that chapters 20 and 29, title 50, Idaho Code, need to be clarified, separating urban renewal from economic development. He thinks that urban renewal is being used for economic development.

Representative Schaefer asked why the whole increase in district property value is given to the urban renewal district, adding that Nampa simply couldn’t afford to be capped. He thinks the urban renewal district should be given only a portion of the property value increase, and the remaining portion should be given to the other taxing entities. **Senator Fulcher** invited **Representative Schaefer** to submit any recommendations to the study group in writing.

Senator Hammond commented that he had witnessed a community in northern Idaho that used urban renewal to develop a substantial amount of commercial and industrial property into a city which broadened the tax base into development in the city and provided tax relief to residential property owners. He asked **Representative Schaefer** if he thought that was a good thing for the taxpayer. **Representative Schaefer** responded that, in good conscience, he couldn’t say it was a bad thing, adding that he thinks there are problems with urban renewal that are burdensome and need to be carefully examined.

Garret Nancolas, Mayor of Caldwell, Idaho, and Vice-chair of Caldwell Eastern Renewal Agency, spoke next, stating that urban renewal has a huge impact on cities and counties in Idaho. **Mayor Nancolas** stated that from both a Mayor and a taxpayer point of view, economic development is urban renewal and vice versa; the two can not be separated. Caldwell is a classic example of this. In the state of Idaho, there is one means for economic development -- urban renewal authority. According to **Mayor Nancolas**, Idaho is 47th in the nation for using economic development tools and incentives for bringing business opportunities into the state. In his opinion, economic development benefits all Idaho citizens. When he became Mayor in 1998, Caldwell was in a state of economic “doldrums” and had been in a state of disinvestment for 25 years. The Department of Commerce strongly suggested creating an urban renewal agency. Based on that recommendation, **Mayor Nancolas** personally visited with every taxing entity that would be affected by an urban renewal agency to determine their plans, needs and desires, and how the city and the taxing entity could partner together for the future of Caldwell. A 15-year plan was developed that included \$104 million worth of expenditures, of which only \$44 million came from the urban renewal authority. The magic came through leveraging the urban renewal dollars with CVDG and EDA grants and by working with private entities, the development

community agency and nonprofit organizations. The results have been impressive. In 1997, 47 building permits were issued in Caldwell. In 2001, two years after creation of the urban renewal agency, 1,100 building permits were issued, and the majority of those were not within the boundaries of the urban renewal district. Water, sewer and power were put in, a partnership with ITD to rebuild a freeway exit, property was bought along that corridor, and ground became more valuable for development due to the improvements. The urban renewal district had \$60 million worth of property when formed; the rest of the city had \$660 million worth of property. Today the city's assessed value is over \$1 billion. It took Caldwell over 100 years to gain \$660 million of assessed value, but only five years to climb to over \$1 billion. For the first time in the last two years, the levy rate has gone *down*. This is because of new growth and annexation that supplanted the city's budget.

Mayor Nancolas said that downtown Caldwell was definitely blighted, with many buildings being a fire hazard and with a 50% vacancy rate. Downtown, he said, is the "heartbeat of the community." Caldwell is going to reroute a creek through downtown Caldwell, and an outside, independent study showed that if they do that within seven years, over \$80 million in new investment will be created in downtown Caldwell alone to create between 700 to 1,000 new jobs. **Mayor Nancolas** believes that an urban renewal authority can truly benefit a community. The Caldwell renewal agency has purchased a 28-acre parcel and a 19-acre parcel that will be deeded to school districts, with the open spaces behind the schools becoming city parks. A recreation center was built in partnership with the YMCA, which would not have happened without the urban renewal agency. The YMCA is important to Caldwell due to the gang problem. On the first day the YMCA opened, there were 400 kids there; "where were those kids before it opened?" The urban renewal agency contributed over \$7 million to that YMCA project, which is a huge benefit to the community, not a burden.

Mayor Nancolas would never condone the misuse or abuse of urban renewal law. Caldwell follows the letter and spirit of the law. The long-term benefits, in his opinion, will be absolutely immeasurable for the City of Caldwell.

Representative Luker asked **Mayor Nancolas'** opinion on requiring a redevelopment plan to go before the city voters for approval before establishing an urban renewal district. **Mayor Nancolas** answered that he would be willing to do whatever it takes. In Caldwell, countless public meetings were held that included the community in that process, and a year was spent in planning. However, **Mayor Nancolas** feared that uninformed voters could defeat a plan, so the education of the public would be very important. Caldwell holds budget hearings on a \$50 million budget and sometimes not one person shows up, even though it is taxpayer money being spent. If everyone could be educated to make an informed decision and then show up at the polls, that might work in a perfect world. Caldwell tries to involve the community as much as possible by meeting with every entity together to formulate the redevelopment plan and by providing the citizens the opportunity to come to public hearings and voice their opinions.

Representative Luker asked if the Caldwell urban renewal agency had occasion to amend its

plan. **Mayor Nancolas** said “yes, one time, when considering the YMCA.” Land was donated for the YMCA that was outside the urban renewal district boundary, so the plan was amended to include the donated 13 acres of ground and also to include a little more ground in downtown Caldwell for the Indian Creek Project.

Mr. Tom Ryder, past President of the Boise Downtown Association and Vice President of the J. R. Simplot Co., was the next speaker. He spoke on behalf of urban renewal districts, in general and the Capital City Development Corporation (CCDC), in particular. He said that the Boise Downtown Association is a business improvement district authorized and operated under Chapter 26, Title 50, Idaho Code, and is *not* an urban renewal district. The J. R. Simplot Co. has had its headquarters in downtown Boise for over 50 years. Every American city is unique with different history, traditions, culture, philosophy and attitudes, while every American suburb is homogenous, exactly the same. He reiterated the specialness and uniqueness of downtown Boise. He said that *nothing* in downtown Boise built in the last 25 years was done without some influence, guidance and advice from CCDC, making Boise’s downtown the envy of many cities its size. Making decisions, taking risks and directing activity is never easy, he said, admitting the CCDC has made some blunders over the years. But without CCDC, Boise’s entire downtown would be a blunder.

Mr. Ryder thinks that CCDC and other urban renewal districts would not be successful without the authority and funding provided by current Idaho statutes. Those statutes were written and designed for urban renewal districts in the traditional sense for allaying urban blight. He also believes there are less traditional and more creative goals that could be accomplished by authorizing new quasi-public entities to perform similar functions. For example, business improvement districts like the Downtown Boise Association, or neighborhood associations in historical sections of the city such as in Hyde Park, Ustick Township or Collister Park, should be given broader and easier access to funds to make those neighborhoods better. Allowing groups like these to come together and partnership to accomplish community-based goals is the way to build better communities. Urban renewal districts should be retained.

Ms. Teresa Molitor, representing the LCDC, expressed the desire to respond to the document distributed by **former Senator Sims**. She requested that LCDC have the opportunity to provide this study group with a written response so that the record could reflect “accurate information” about LCDC’s side of this issue in Coeur d’Alene. She also agreed to respond in person, if the study group had any questions. **Representative Bayer** encouraged all attendees and study group members to submit information and recommendations to the Legislative Services Office as soon as possible.

Mr. Robert Chambers, Director of Planning and Development Services, City of Pocatello, has participated in a committee of both elected officials and practitioners organized by the Association of Idaho Cities to look at issues surrounding urban renewal and revenue allocation and to make recommendations to this study group. He said the committee worked closely with the Idaho Association of Counties. The committee will be bringing forth proposals that: (1) will

address the concern expressed about voter approved levy adjustments within urban renewal districts to make sure those adjustments get to the taxing entity that sponsored the levy; and (2) allow urban renewal agencies and development authorities to include some provision for revenue to go back to the taxing jurisdictions out of the revenue allocation proceeds in recognition of services, interests and needs of those taxing jurisdictions.

Mr. Chambers said that since 1988, with the inception of the local Economic Development Act, Pocatello has created 12 urban renewal districts. Five have been closed. Three, by amendment of the plan, have been consolidated into one, with the net effect of reducing the terms of those three districts by a net of eight years. Pocatello currently has five active districts, with one closing next year.

In Pocatello, urban renewal districts have used incremental taxation for site specific projects to address deteriorating conditions. Pocatello has a diverse nine member urban renewal agency board, which includes the Mayor, a City Council member, the Bannock County Chair of the Commission, business leaders, real estate developers and other citizens at-large who are representative of the community. All of the proposed urban renewal districts go through the City Council for examination. After a pre-application process has been done, the proposal goes before the Planning and Zoning Commission to make sure it's in compliance, and ultimately, a public hearing is held before a plan is adopted to create that revenue allocation district. Every effort is made to make sure the benefits outweigh the costs in truly eliminating blight, creating substantial tax value from new construction, creating jobs, and providing a synergistic effect on the community outside the district.

Mr. Chambers said that it does no good to eliminate blight unless you follow up with economic development; the two are linked. Otherwise, any removal of blight cannot be sustained. In response to a question regarding voter approved plans or an elected board, **Mr. Chambers** said that he is not an elected official, but he would worry a great deal about losing the skill set, the diversity and the broad-based representation currently on the Pocatello board if an election process was required. The decision of a prospective company thinking about locating to a community comes at a very critical point. The company wants to know immediately if a district will support its effort. If that were put to an election, introducing uncertainty, he believes that Pocatello could not compete. There are three significant companies of importance in Pocatello that would *not* have made the decision to come if they had to wait for an election or if the revenue allocation dollars had not been made available to assist in that effort. He said that Pocatello has been revitalized, much of which can be attributable to the responsible use of tax increment financing, as well as Pocatello's ability to be agile and aggressive in response to the demands and interests of business. That is why so many people are moving into Pocatello.

Representative Luker commented that Pocatello seems responsive to taking care of the purpose of the district and then dissolving it, but that there are other areas where that may not be the case, and asked if he had any suggestions for legislative solutions to provide incentives to dissolve when the purpose is accomplished. **Mr. Chambers** answered that he isn't sure if one can

legislate these things. Having sufficient life spans for urban renewal districts is absolutely essential. The ramifications for not having sufficient life spans may very well lead to more study groups looking at potential restrictions. He believes that when local residents communicate, accountability is expected and usually met. **Mr. Chambers** would also continue the dialogue initiated through the Association of Idaho Cities between practitioners and elected leaders and allow local policing of urban renewal districts through good communication.

Mr. Harward said that the Association of Idaho Cities Task Force which **Mr. Chambers** talked about has been meeting through the summer and fall of 2007. **Mr. Harward** handed out a summary of the laws and statutes entitled "Urban Renewal 101," which is available in the Legislative Services Office. **Mr. Harward** called the study group's attention to page 13 which showed the statutory changes that have been made since 2000. On page 15 is a draft proposal to amend sections 50-2905 and 50-2908, Idaho Code. He added that the Association of Counties also has a similar draft and that additional changes may be made to bring those two drafts into compatibility. **Mr. Dan Chadwick**, Idaho Association of Counties, passed out his Association's draft on sections 50-2908, 63-803 and 63-811, Idaho Code, which is also available in the Legislative Services Office.

Senator Bastian asked **Mr. Chambers** how we would characterize Pocatello's Urban Renewal Agency in terms of economic impact. **Mr. Chambers** answered that the impact has been substantial. One 10-year district that will be retiring next year has generated \$85 million in new taxable value, much of which would *not* have been there otherwise, along with 900 new jobs. A second, three-year old district has generated over \$17 million in new construction value and 300 new jobs, with predictions of another \$12.5 million and 100 more jobs. He emphasized that when Pocatello has any excess revenue, it is applied to debt payment so as to allow an urban renewal district to be closed as quickly as possible and giving the full value to the tax rolls. Another indicator of economic success is that Pocatello is not taking the full 3% each year; something is happening outside these urban renewal districts that is remarkable.

Senator Bastian asked if there had been any complaints of other taxing districts concerning urban renewal agencies or districts in Pocatello. **Mr. Chambers** answered "yes" and that their strategy has been to resolve issues of concern through communication. Some issues had to do with mapping quality which was addressed. Pocatello tries to respond to all complaints.

Senator Heinrich asked if the county was having trouble with levy limits after the urban renewal districts were formed in Pocatello. **Mr. Chambers** answered "yes, particularly with their justice fund." He said there was a statutory limit to that fund and each year they were levying just short of that limit, which was a concern. The Pocatello renewal agency's CFO conducted an analysis on what would happen if all the urban renewal districts went away and their value was put back on the tax rolls, and found that the impact on the justice fund would be negligible, around \$283,000 additional dollars that might be available.

Representative Hart asked **Mr. Chambers** about the life span of urban renewal districts and

why Pocatello would want to go out 24 years or close an urban renewal district early. **Mr. Chambers** said that the Pocatello urban renewal districts had life spans that ranged from seven to 10 years, one had an 18-year life span and one, 24 years. The one that was consolidated was a 30-year district, so there are no longer any of those under the terms permitted by the old legislation. Pocatello has created three districts that have 24-year terms, primarily due to the economic feasibility analysis which determined the time necessary to generate the increment needed for the project expenses. In one instance, Pocatello recognized that a district was going to take four years before it generated any revenue due to the construction timetable. So the term of that district was extended to account for that slower construction time period and lack of increment and in order to stay solvent with the bond.

Representative Killen handed out a letter dated November 16, 2007, without attachments, from the Deputy Attorney General Mitchell E. Toryanski, in response to a question brought up at an earlier study group meeting on whether a property had to be within the area of impact in order to be subject to annexation. A copy is available in the Legislative Services Office. Mr. Toryanski's letter analyzed two opinions: One opinion saying "yes" while the other said "no." The bottom line appeared to be that the existing state of the law is "unresolved" as to whether consent annexation, where a developer requests annexation, is outside the purview of the impact area requirement. **Representative Killen** reiterated that he was not expressing an opinion, but said that if the Legislature does not address this, at some point in time this issue will be taken up in court, resulting in much time and expense. He did suggest that this letter be addressed at the next meeting, believing it to be a "loose end that needs to be tied up."

Representative Hart handed out a two-page document entitled "Resolution Concerning URDs dated November 29, 2007," which is available in the Legislative Services Office. He pointed out eight recommendations on page 2, commenting that he had looked at an article on the meaning of blight and he read a paragraph on that definition. He believes the issue before this study group is not whether to keep or get rid of urban renewal, but rather finding a way to do it right, adding that there were many examples in this meeting of how it is being done right. **Representative Hart** invited constructive feedback on his handout.

Representative Bayer again recommended that everyone forward their comments and recommendations to the Legislative Services Office by December 13, 2007.

Senator Fulcher closed the meeting by stating that, in the course of the meetings held, it is clear to him that with regard to the current process of urban renewal districts and annexation, there is room for improvement. There are committees that oppose everything, but this is not in the spirit that this study group was formed. He encouraged everyone to be part of the process and the resolution. He believed that with one more meeting, some steps could be taken, perhaps without 100% consensus, that could serve everyone well.

Representative Bayer adjourned the meeting at 4:25 p.m.